



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

Office of the Superintendent of Financial Institutions

2008-2009

Departmental Performance Report

Minister of Finance



Canada

Table of Contents

Superintendent's Message	4
SECTION I: DEPARTMENTAL OVERVIEW	5
Raison d'être	6
Responsibilities	6
Strategic Outcomes and Program Activity Architecture (PAA)	7
Performance Summary	8
Contribution of Priorities to Strategic Outcomes	11
Risk Analysis	15
Expenditure Profile	18
Voted and Statutory Items	19
SECTION II: ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME	20
Strategic Outcome One	21
1.1 Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions	21
Benefits for Canadians	24
Performance Analysis	24
Lessons Learned	26
1.2 Program Activity: Regulation and Supervision of Federally Regulated Private Pension Plans	28
Benefits for Canadians	29
Performance Analysis	29
Lessons Learned	31
1.3 International Assistance	32
Benefits for Canadians	32
Performance Analysis	33
Lessons Learned	33
Strategic Outcome Two	34
2.1 Office of the Chief Actuary	34
Benefits for Canadians	36
Performance Analysis	36
Lessons Learned	37
SECTION III: SUPPLEMENTARY INFORMATION	38
Financial Highlights	39
Financial Statements	40
List of Supplementary Information Tables	41
Other Items of Interest	41

Superintendent's Message



In 2008-2009, the institutions and pension plans under OSFI's oversight faced many challenges. Plunging stock markets, low interest rates, a recession, and other factors affected all banks, life insurance companies, property and casualty insurance companies and private pension plans. Because the Canadian financial system withstood the global financial market turmoil better than many others, OSFI fielded many questions from domestic and foreign journalists as well as other parties as to why Canada has fared relatively well. Our answer has been that the strength of the Canadian system is due to Canada's overall policy framework, to the quality of OSFI's supervision and regulation, to cooperation and

communication among our Financial Institutions Supervisory Committee (FISC) partners, and to the risk management skills of Canada's financial institutions. An especially important element of our success is OSFI's clear mandate and accountability, as assigned to us by Parliament, which drives all of our activities and requires a focus on solvency. While recognizing that failures can occur, the OSFI mandate clearly emphasizes early intervention and the need to act expeditiously to limit the risk of failure.

Throughout 2008-2009, OSFI worked internationally with other members of the Basel Committee on Banking Supervision (BCBS) and the international Senior Supervisors Group. We participated in meetings of the Financial Stability Board (formerly known as the Financial Stability Forum) and the International Association of Insurance Supervisors. As part of our proactive approach, we initiated annual risk management seminars for the Chief Risk Officers of various industry segments in order to communicate our expectations, share best practices and developments, discuss lessons learned and provide additional opportunity for dialogue with OSFI supervisors and regulators. We increased the number of OSFI staff with special knowledge of credit, market and operational risks. We also continued our practice of holding supervisory colleges; the first Financial Stability Board-sanctioned college took place in February. These colleges, which OSFI started hosting in 2005, provide the opportunity for information sharing between some of Canada's major banks and the host regulators of the countries in which those banks do business.

While OSFI's mandate, philosophy and independence are key elements in how we fulfill our role, our success would not be possible without OSFI's greatest resource -- its people. This past year has called for unprecedented levels of dedication from all parts of our organization, and I would like to express my appreciation to OSFI's employees for all their efforts.

SECTION I: DEPARTMENTAL OVERVIEW

Raison d'être

OSFI supervises and regulates all federally incorporated or registered deposit-taking institutions (e.g., banks), life insurance companies, property and casualty insurance companies, and federally regulated private pension plans.

OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions (FRFIs) and private pension plans. The work of OSFI contributes to the confidence of Canadians in Canada's financial system.

The Office of the Chief Actuary (OCA) is a separate unit within OSFI. The OCA provides high-quality, timely advice on the state of various public pension plans and on the financial implications of options being considered by policy-makers. The work of the OCA contributes to the confidence of Canadians in Canada's public retirement income system.

Responsibilities

OSFI's legislated mandate was implemented in 1996 and under the legislation, OSFI's mandate is to:

- supervise federally regulated financial institutions and private pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements respectively, and are complying with their governing law and supervisory requirements;
- promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk; and
- monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

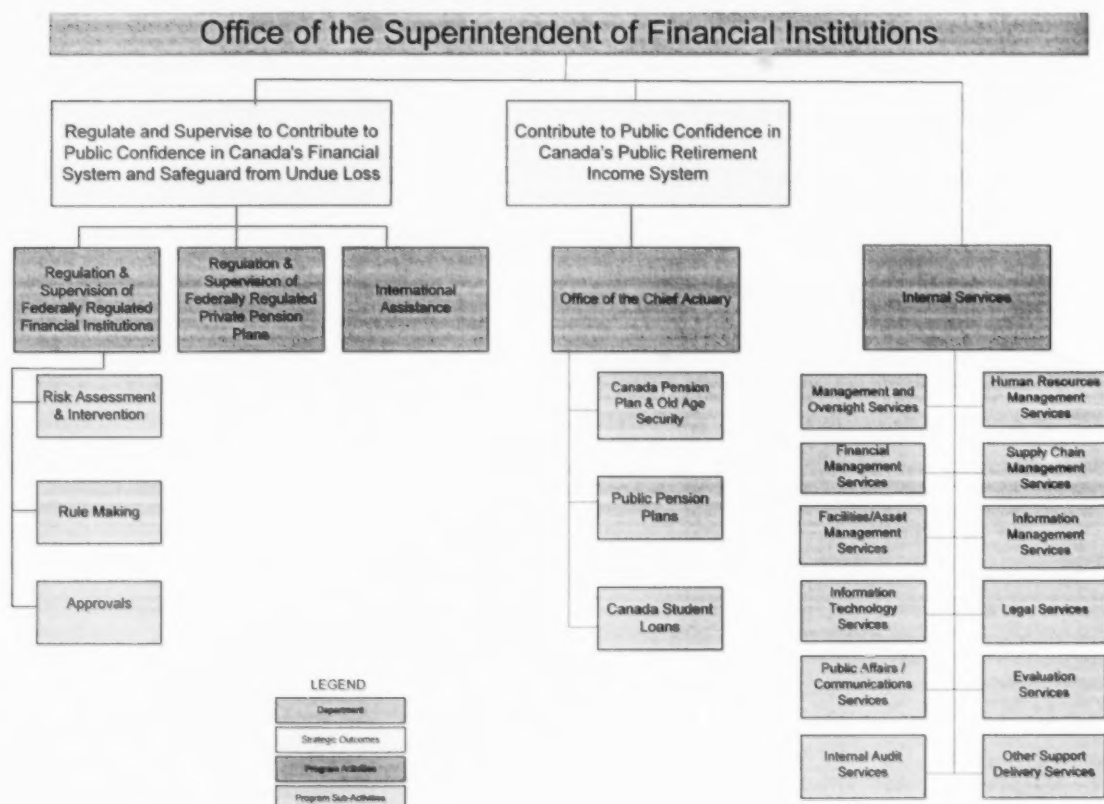
OSFI's legislation also acknowledges the need to allow institutions to compete effectively and take reasonable risks. It recognizes that management, boards of directors, and plan administrators are ultimately responsible and that financial institutions and pension plans can fail.

Strategic Outcomes and Program Activity Architecture (PAA)

Primary to OSFI's mandate and central to its contribution to Canada's financial system are two strategic outcomes:

1. *To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.*
2. *To contribute to public confidence in Canada's public retirement income system.*

The chart below illustrates OSFI's framework of program activities and program sub-activities, which support each Strategic Outcome. In accordance with Treasury Board's *Policy on Management, Resources and Results Structures*, a separate program activity for Internal Services was created to facilitate government-wide reporting and cost analysis. Consistent with the presentation of OSFI's 2008-2009 *Report on Plans and Priorities*, the costs of OSFI's Internal Services activities in this 2008-2009 *Departmental Performance Report* are allocated to each program activity to present the full program costs.



Performance Summary

The tables below identify OSFI's financial and human resources, planned and actual, for the 2008-2009 fiscal year.

2008–2009 Financial Resources (Millions)

Planned Spending	Total Authorities	Actual Spending
\$93.7	\$93.7	\$90.8

2008–2009 Human Resources (Full-Time Equivalents)

Planned	Actual	Difference
471	480	9

OSFI's total 2008-2009 spending of \$90.8 million is \$2.9 million (3.1%) lower than its planned spending of \$93.7 million. The incremental cost of 9 additional Full-Time Equivalents (FTEs) was offset by significant savings as a result of the deferral to 2009-2010 of several large information technology projects.

The table below presents a summary of OSFI's performance during the 2008-2009 fiscal year towards achieving its first Strategic Outcome.

Strategic Outcome 1: To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.		
Performance Indicators	Targets	2008–2009 Performance
Percentage of knowledgeable observers who rate OSFI as doing a good or very good job at contributing to public confidence in Canada's financial services industry.	70%	A strong majority (88%) of Chief Executive Officers (CEOs of FRFIs) believe OSFI performs well in contributing to public confidence in Canada's financial services industry. <i>Source: Report on Financial Institutions Survey 2008</i> ¹
Percentage of estimated recoveries on failed institutions (amount recovered per dollar of claim).	90%	Total weighted average recoveries ² were 99% at 2008-2009 year end, which meets the set target of 90%. <i>Source: Canada Deposit Insurance Corporation, Agents, Liquidators</i>
Percentage of estimated recoveries on pension plans that have terminated under-funded.	85%	Four pension plans terminated under-funded in 2008-2009. The current estimated recovery rate for these plans is 85%. <i>Source: Internal data</i>

¹ OSFI provided The Strategic Counsel, an independent research firm, with a list of CEOs of federally regulated financial institutions. The research firm invited the CEOs to participate in either an online or a telephone survey, and 166 (61%) participated. OSFI does not know which CEOs participated. The report is available on [OSFI's Consultations and Surveys Web page](#).

² No financial institutions have failed within the 2008-2009 fiscal year.

Strategic Outcome 1: To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.		
Performance Indicators	Targets	2008-2009 Performance
Percentage of respondents that rate the assistance / presentations provided as relevant to their work.	80%	In 2008-2009, 86.8% of respondents rated the assistance / presentations as relevant to their work. <i>Source: Survey of International Advisory Group (IAG) program participants³</i>

The table below presents OSFI's planned and actual spending by program activity for Strategic Outcome 1, and a comparison to actual spending in the previous year.

Program Activity	2007-2008 Actual Spending	2008-2009				Alignment to Government of Canada Outcomes
		Main Estimates	Planned Spending	Total Authorities	Actual Spending	
1.1 Regulation and Supervision of Federally Regulated Financial Institutions	\$72.8	\$79.6	\$79.6	\$79.6	\$77.1	- Strong economic growth - A safe and secure world through international co-operation - Strong economic growth - Income security for Canadians - Strong economic growth - A safe and secure world through international co-operation
1.2 Regulation and Supervision of Federally Regulated Private Pension Plans	\$5.8	\$6.5	\$6.5	\$6.5	\$6.2	
1.3 International Assistance	\$2.0	\$1.9	\$1.9	\$1.9	\$2.2	
Total (millions)	\$80.6	\$88.0	\$88.0	\$88.0	\$85.5	

¹ Further discussion on links to Government of Canada Outcome Areas found in the 2008-2009 RPP.

OSFI's actual spending in 2008-2009 towards its Strategic Outcome 1 was \$85.5 million, \$2.5 million, or 2.8%, lower than planned. The variance is primarily in the Regulation and Supervision of Federally Regulated Financial Institutions program activity, and is largely due to the deferral of several large information technology projects. The decision to defer these projects to 2009-2010 was based on two factors: the need for supervisory and regulatory resources to focus on global and domestic financial events, and the need to first complete the review and update of OSFI's Information Management and Information Technology Strategy.

The increase in actual spending of \$4.9 million, or 6.1%, from the previous year is mainly attributed to OSFI's growth in Full-Time Equivalents (21 FTEs), and increases in professional services costs to address at-risk institutions and travel costs related to OSFI's various international commitments.

³ Surveys are provided to workshop participants when IAG staff are the primary presenters. IAG delivered 25 such workshops in 2008-2009, with 853 participants. A total of 694 surveys were completed, for a response rate of 81.4%.

The table below presents a summary of OSFI's performance during the 2008-2009 fiscal year towards achieving its second Strategic Outcome.

Strategic Outcome 2: To contribute to public confidence in Canada's public retirement income system		
Performance Indicators	Targets	2008-2009 Performance
Actuarial reports fairly communicate the results of the work performed by the Chief Actuary and his staff.	Unanimous agreement	2008-2009 – N/A – no peer review in 2008-2009 Refer to the summary for Program Activity 2.1 below.
Adequacy of professional experience of the Chief Actuary and his staff. AND/OR Compliance with Canadian and international professional standards.	Unanimous agreement Unanimous agreement	The external peer review panel's findings received in March 2008 report that work on the 23rd Actuarial Report (CPP) complies with all relevant professional standards and that the Chief Actuary and his staff have adequate professional experience. The next independent peer review is scheduled for 2010-2011. <i>Source: Review of the Twenty-Third Actuarial Report on the Canada Pension Plan dated 19 March 2008, conducted by the CPP Actuarial Review Panel.</i>

The table below presents OSFI's planned and actual spending by program activity for Strategic Outcome 2, and a comparison to actual spending in the previous year.

Program Activity	2007-2008 Actual Spending	2008-2009				<u>Alignment to Government of Canada Outcomes</u>
		Main Estimates	Planned Spending	Total Authorities	Actual Spending	
2.1 Office of the Chief Actuary institutions	\$5.1	\$5.7	\$5.7	\$5.7	\$5.3	■ Income security for Canadians
Total (Millions)	\$5.1	\$5.7	\$5.7	\$5.7	\$5.3	

 Further discussion on links to Government of Canada Outcome Areas found in the 2008-2009 RPP.

OSFI's actual spending in 2008-2009 towards its Strategic Outcome 2 was \$5.3 million, \$0.4 million, or 7.0%, lower than planned. The variance is mainly due to lower Human Resources costs as a result of unexpected vacancies during the fiscal year.

The increase in actual spending of \$0.2 million, or 3.9%, from the previous year is due to planned increases in employee compensation, offset by a decrease in costs associated with the triennial review of the Canada Pension Plan in 2007-2008.

Contribution of Priorities to Strategic Outcomes

The table below presents a summary of status and contribution to strategic outcomes for OSFI's operational and managerial priorities in 2008-2009.

Operational Priorities	Type	Status ^a	Links to Strategic Outcome(s) ^a
1.1 Regulation and Supervision of Federally Regulated Financial Institutions – This program activity contributes to the safety and soundness of the Canadian financial system through risk assessment and intervention, rule making and approvals activities. OSFI's work in turn, contributes to public confidence in the system.	Ongoing	Successfully Met	Strategic Outcome 1
1.2 Regulation and Supervision of Federally Regulated Private Pension Plans – OSFI conducts risk assessments of pension plans covering employees in federally regulated areas of employment; provides timely and effective intervention and feedback; employs a balanced relevant regulatory framework; and manages a prudentially effective and responsive approvals process.	Ongoing	Successfully Met	Strategic Outcome 1
1.3 International Assistance – Through this program activity, OSFI provides technical assistance to help emerging market economies improve their financial institution supervisory systems. Canada has long recognized that upgrading the supervisory capacity of developing and emerging market regulatory bodies can help to enhance the overall stability of the global financial system.	Ongoing	Successfully Met	Strategic Outcome 1
2.1 Office of the Chief Actuary – This program activity contributes to financially sound federal government public pension and other programs through the provision of expert actuarial valuation and advice to the Government of Canada and to provincial governments that are Canada Pension Plan (CPP) stakeholders.	Ongoing	Successfully Met	Strategic Outcome 2
Management and Program Priorities	Type	Status	Links to Strategic Outcome(s)
A. Enhanced Identification of Emerging Risks – Improve OSFI's ability to identify, monitor and report on emerging risks to Canada's financial system and federally regulated financial institutions (FRFIs). <u>Achievements:</u> The Emerging Risk Committee met weekly to discuss market developments and identify emerging issues for targeted work. Introduced annual Risk Management sessions with various industry segments to reinforce the need for strong risk management and to share lessons learned. Completed comparative reviews of key risk areas: U.S. commercial real estate, liquidity risk management, structural interest rate risk in the banking book, securitization, and banks' internal capital adequacy assessment processes. Through hiring and reorganization, increased resources allocated to higher risk institutions and products, and to the supervision of insurance conglomerates. Delivered focused training on structured products, liquidity management and trading operations to relevant employees to better prepare them to identify emerging risks. Held Appointed Actuaries Forum to review strengths and weaknesses of dynamic capital adequacy testing (DCAT) reports.	New	Successfully Met - Ongoing	Strategic Outcome 1 This priority contributes through earlier identification, monitoring, and reporting on emerging risks to Canada's financial system and the federally regulated financial institutions and private pension plans that operate within it.

Management and Program Priorities	Type	Status	Linkages to Strategic Outcomes
B. Institutional and Market Resilience - Participate in international discussions about key issues arising from global market turmoil. Work with Financial Institutions Supervisory Committee (FISC) partners on similar issues in Canada. <u>Achievements:</u> Continued participation in international discussions with the Financial Stability Board (FSB - formerly the Financial Stability Forum), the International Association of Insurance Supervisors and other organizations. Continued active participation in the Joint Forum⁴, including a review of the use of external credit rating agencies by regulators (The related working paper is available on the Bank for International Settlements Web site: "Stocktaking on the use of credit ratings") and a study of off-balance sheet vehicles to gain insight into the degree of risk transfer or capital relief achieved by such vehicles. Worked actively with other Basel Committee on Banking Supervision (BCBS) members to assess the drivers of the crisis in financial markets, and to develop and issue new rules for sound risk management and capital regulation (liquidity risk management, stress testing, economic capital modelling, and revisions to Basel II). Continued to participate as an active member of the Accounting Task Force of the BCBS to comment on key accounting standard setting initiatives, including: consolidated financial statements, financial statement presentation, reducing complexity on financial instruments accounting, and improving disclosures about financial instruments. Worked on developing "lessons learned" from the recent market events with the international Senior Supervisors Group, which published the report, <i>Observations on Management of Recent Credit Default Swap Credit Events</i>. Hosted a College of Supervisors for key foreign regulators of one of the major financial institutions (first college based on FSB recommendations). Continued work with the Financial Institutions Supervisory Committee (FISC) and enhanced quarterly reporting to FISC partners.	New	Successfully Met - Ongoing	Strategic Outcome 1 This priority contributes by enhancing OSFI's ability to identify and respond to key issues arising from global economic events and developments in world financial markets, and preparedness for any domestic impacts.
C. Changes to International Financial Reporting Standards (IFRS) - Implement the move from Canadian GAAP to International Financial Reporting Standards (IFRS). <u>Achievements:</u> Developed, approved and implemented Project Charter for IFRS Governance. Completed policy analysis of key differences of concern between IFRS and Canadian GAAP for 20 IFRS standards having an impact on FRFIs. Made substantial progress in developing implementation options and preliminary recommendations for FRFIs in four key policy areas. Held IFRS forums for deposit-taking institutions, property and casualty insurers and life insurers, and education sessions for OSFI project team members. Implemented semi-annual IFRS Progress Reporting for FRFIs and analyzed initial reports. Completed work on Accounting Standards Impact Analysis for OSFI. Completed high-level business and systems impact analyses for OSFI.	Previously committed	Successfully Met - Ongoing	Strategic Outcome 1 This priority contributes through OSFI's understanding of the implications of the accounting changes on its supervisory and monitoring processes, and ensuring positions on policy, process and reporting changes.

⁴ The Joint Forum — established in 1996 by the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors — works to achieve consistency of supervisory approaches on issues of common interest across financial sectors and national borders.

Management and Program Priorities	Type	Status	Linkages to Strategic Outcomes
D. Minimum Continuing Capital and Surplus Requirements (MCCSR) – Adjust the current MCCSR, by developing and agreeing on a capital framework for life insurance companies over the next four years. <u>Achievements:</u> Issued a draft capital framework and a market risk paper for standardized approach, both developed in conjunction with Assuris and the Autorité des marchés financiers. Continued to work with these stakeholders to develop a credit risk consultation paper. Continued to work with the life insurance industry through the MCCSR Advisory Committee (MAC) to develop and incorporate more advanced risk measurement techniques into the MCCSR. Made a number of revisions to the MCCSR Guideline for life insurance companies, most significantly to the capital requirements for segregated funds guarantees and the treatment of negative reserves, mortality, and foreign exchange requirements.	Previously committed	Successfully Met - Ongoing	Strategic Outcome 1 This priority contributes through a more risk sensitive capital framework for life insurance companies
E. Financial Sector Assessment Program (FSAP)/ Financial Action Task Force (FATF) Reviews - Respond to suggestions or recommendations in the Financial Sector Assessment Program (FSAP) report and the Financial Action Task Force (FATF) report. <u>Achievements:</u> FSAP - Increased the number of supervisory staff and staff with special knowledge of credit, market and operational risks by hiring additional employees with current industry experience. Priorities A and B above cover the recommendations around monitoring the stresses in the global environment. Completed a multi-year project to develop a new risk assessment framework for pensions, which reflected FSAP's recommendation that OSFI's supervision of pension plans focus on inherent risks, the adequacy of controls and risk management. FATF - Worked with a number of other stakeholders on evaluating Canada's anti-money laundering/anti-terrorism financing (AML/ATF) regime in light of the FATF Mutual Evaluation Report. Accelerated the issuance of a revised and comprehensive Guideline on Detering and Detecting Money Laundering and Terrorist Financing in December 2008 to meet a FATF follow-up deadline. Continued to play an active role in the work of the FATF.	Previously committed	Successfully Met	Strategic Outcome 1 This priority contributes through enhanced risk identification and monitoring of stresses in the global environment
F. Basel II Capital Accord – Post-Implementation Phase - Monitor Basel II systems and review banks' capital adequacy assessment processes and relevant policies. <u>Achievements:</u> Developed a monitoring framework and tracked the performance of risk rating systems for banks using the Internal Ratings Based (IRB) approach. Conducted cross-system supervisory reviews at IRB banks to assess ongoing adherence to Pillar 1 minimum requirements. Designed and implemented the interim IRB model modification framework to guide the supervisory review and approval of modifications to IRB risk rating systems. Performed cross-system reviews of Internal Capital Adequacy Assessment Process (ICAAP) at IRB banks and related risk measurement techniques, given the evolving nature of Pillar 2 and economic capital practices. Established a framework for the supervisory review of ICAAPs at standardised banks.	Previously committed	Successfully Met - Ongoing	Strategic Outcome 1 This priority contributes through improved focus on the measurement of risks and their relation to the overall level of capital adequacy for deposit-taking institutions

Management and Program Priorities	Type	Status	Linkages to Strategic Outcomes
G. People - Ensure OSFI has the human resources available to fulfill its mandate, through better long-range, integrated planning. <u>Achievements:</u> Enhanced OSFI's HR planning process to ensure key resources necessary to meet ongoing operational requirements and emerging risks are prioritized, skill gaps are identified, and action plans are developed and monitored on a quarterly basis at the sector level (semi-annually at the corporate level). Implemented targeted recruitment strategies, including development of a university recruitment program anticipated to start in the fall of 2009. Conducted a training needs analysis that enabled the delivery of training aligned with identified risks and priorities. Reviewed Executive group compensation to ensure continuing alignment with the market.	Previously committed	Successfully Met - Ongoing	Strategic Outcome 1 and 2 This priority contributes by improving OSFI's ability to attract, motivate, develop and retain employees with highly specialized knowledge, skills and experience to perform its work.
II. Pensions Systems and Processes - Enhance OSFI's ability to perform as required in an increasingly complex pensions environment by enhancing OSFI's pension system and processes. <u>Achievements:</u> Completed development of a new risk assessment framework for pension plans and began the process of enhancing the pension IT system to support the framework. Pursued enhancements to a new automated system to support the pension approvals function. Published additional approval instruction guides to the pension industry.	Previously committed	Successfully Met - Ongoing	Strategic Outcome 1 This priority contributes through improved systems and processes to support the evolving supervisory and regulatory activities of the Private Pension Plans Division.
* See section II for how this priority contributes to a strategic outcome. + See section II for achievements towards this priority.			

Risk Analysis

Key Risks and Threats

During the reporting period, the Canadian economy followed the US economy into a recessionary state. The Canadian dollar depreciated significantly in relation to the US dollar during the reporting period, however this did not provide much of a boost to exporters because of the continued deterioration of economic conditions in the US and elsewhere. While there have been signs of hope of a recovery in the near future, the recent strength of the Canadian dollar could represent significant downside risk. Resurgence in exports is critical to the recovery and a prolonged appreciation of the Canadian dollar could have significant negative implications. Sustained slowing of Canadian consumer spending will add more to these recessionary conditions.

During 2008-2009, OSFI continued to promote sound risk management practices through its rule-making activities. We also continued to work with international bodies to develop international rules that may be applied to Canadian financial institutions. As part of its assessments of member countries required under Article IV of the Articles of Agreement, in March 2009 the International Monetary Fund recognized the benefits these activities have had for Canada during the global financial market turmoil. The IMF stated that our "strong regulatory and supervisory framework" was one of the three factors responsible for the resilience of the Canadian banking system compared to its global competitors. Further, in 2008, Canada was recognized as having the world's soundest banking system by the World Economic Forum's Global Competitiveness report.

Enterprise Risk Management

The environment within which OSFI operates presents an array of challenges to the achievement of its mandate and objectives. While many of these challenges are consistently present, the extent to which they present a risk to OSFI's objectives varies, depending on economic and financial conditions and the financial industry environment. OSFI's ability to achieve its mandate depends on the timeliness and effectiveness with which it identifies, evaluates, prioritizes, and develops initiatives to address areas where its exposure is greatest.

OSFI's risk management process has undergone changes designed to make the process more dynamic and timely. OSFI's Enterprise Risk Management (ERM) framework has been updated to reflect a greater integration of ERM with the executive process of discussing and evaluating risks.

OSFI's ERM framework divides risks into external and internal categories. The external risk category consists of economic and financial conditions, the financial industry's environment, OSFI's legal environment and catastrophic events. External risks arise from events that OSFI can potentially influence but cannot control, but must be able to monitor and react to in order to mitigate the impact. The internal risk category consists of risks within our control that can broadly be categorized as people, processes, systems and culture.

OSFI's ERM program has identified several key risks to the achievement of its mandate and objectives.

External Risks

Global Economies and the Industry

The risks posed by the current environment (both at the level of the economy and within the financial sector) feature predominantly. Global financial events require that OSFI, like all financial sector regulators, be in a position to respond effectively to a constantly evolving economic and regulatory environment. To ensure effective and efficient response, OSFI relies on the work of its Emerging Risks Committee and initiatives such as cross-sector reviews in high risk areas and stress testing exercises.

Internationally, pronouncements by the G-20 leaders have resulted in a number of new committees (formed by the Financial Stability Board, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the Joint Forum) in which OSFI has chosen to participate, including procyclicality/capital buffers, leverage, external ratings, and securitization.

Domestically, OSFI is participating in discussions with the Department of Finance regarding the adaptation of the G-20 recommendations.

Capital Adequacy

OSFI is in the process of reviewing its Minimum Continuing Capital and Surplus Requirements (MCCSR) and the Minimum Capital Test (MCT) to reflect recent lessons learned and to take account of the direction of international efforts such as those of the International Association of Insurance Supervisors (IAIS) to develop new capital guidance. As Canada has been at the forefront of insurance regulation, adjustments to the MCCSR and the MCT are necessary to ensure that Canada's capital rules remain effective and among the international leaders in this field. In 2008-2009, OSFI continued to participate in a number of IAIS initiatives.

Market events, coupled with the new international capital framework (Basel II) for banks, have required more focus on the measurement of risks and their relation to the overall level of capital adequacy. As a result, policies to strengthen the resilience of banks to future stress are being developed. Changes internationally will feature a combination of measures such as introducing standards to promote the build-up of capital buffers that can be drawn down in periods of stress, strengthening the quality of bank capital, improving the risk coverage of the capital framework and introducing a non-risk based supplementary measure. During 2008-2009, OSFI worked actively with other Basel Committee for Banking Supervision (BCBS) members to develop these measures as well as to issue new guidance on stress testing, liquidity management, assessing fair values and the range of practices on economic capital modelling. These pronouncements from the BCBS during this period were developed with OSFI involvement.

Accounting

Canada is adopting International Financial Reporting Standards (IFRS) in 2011. As a reliance-based regulator, it is critical that OSFI understands the implications of changes to financial statements to perform accurate risk assessments of financial institutions. OSFI is in the process of assessing the effects on institutions of the move to IFRS and the need for new or modified

guidance from OSFI. OSFI continued to work closely with national and international organizations to present its views on these issues.

OSFI has been working diligently with the financial institutions that it regulates to ensure that they are ready to adopt the International Financial Reporting Standards. Industry forums were organized by OSFI to facilitate consultations and information sharing.

In addition, OSFI has completed its first semi annual review of IFRS progress reports from financial institutions and provided the industry with feedback to help maintain momentum.

Internal Risks

People Risks

Given the increasing complexity and volatility of the economy, OSFI must have employees with highly specialized knowledge, skills and experience to ensure effective regulation and supervision of financial institutions. Over the past year OSFI has focused on increasing the number of staff with special knowledge of credit, market and operational risks, and will continue to recruit and reassign staff to fill any identified gaps. In addition, market conditions, normal turnover and retirement rates mean that a continuous learning environment is necessary to enable employees to meet the challenges of the constantly changing environment. Attracting, motivating, developing and retaining skilled staff is and will continue to be a top priority for OSFI. OSFI implemented targeted recruitment strategies, including significant hiring in the Supervision sector in Toronto.

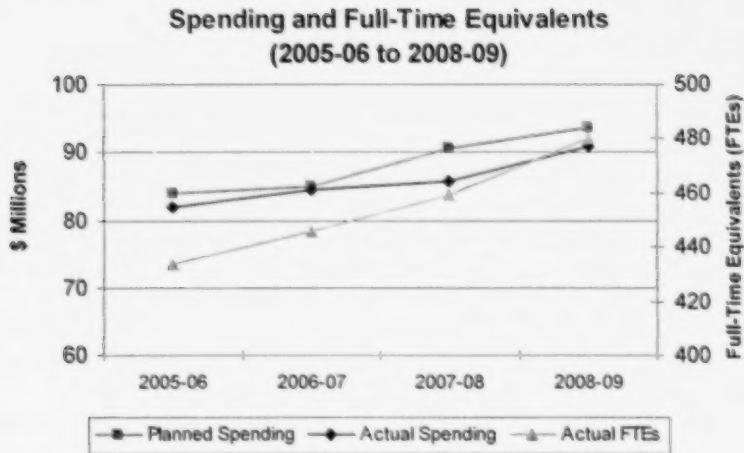
Pension Systems and Processes

The sharp drop in equity values beginning in the second half of 2008 led to significant deterioration in the solvency position of federally-regulated defined benefit pension plans at year end 2008. As a result, the environment was challenging for a number of pension plans going into 2009.

In light of the global financial market turmoil and economic conditions, the Government of Canada provided pension plans with relief through the 2009 Solvency Funding Relief Regulations. In addition, the Government initiated a consultation on private pension issues, with one of its objectives being to review the solvency funding rules and table any necessary legislative changes by the end of 2009. OSFI is collaborating closely with the Department of Finance on this initiative.

Many of the gaps in systems and processes that were previously identified by the Pensions area have been or are in the process of being addressed. This past year, OSFI completed the review of its  pension risk assessment framework that was begun in 2006-2007. In addition, initiatives are well underway to upgrade the systems that support Pension supervisory efforts. These initiatives will be implemented over the next few years.

Expenditure Profile



The table above presents a four year trend of OSFI's planned and actual spending, and actual full-time equivalents (FTEs). OSFI's human resources costs typically account for approximately 75% of its spending, which explains the correlation between the spending and FTE trend lines. In the latter half of 2006-2007, OSFI focused aggressively on filling vacancies and added resources in support of the New Capital Adequacy Framework (Basel II), Anti-Money Laundering/Anti-Terrorist Financing activities, international work on changes to accounting standards, and in the Private Pension Plans area. During 2007-2008, OSFI increased its FTEs by 2.9% from the previous year in order to direct more resources to enhancing the identification of emerging risks and to monitoring institutional and market resilience in response to the prevailing global economic and financial market events. OSFI further increased its staff complement by 4.6% in 2008-2009 to focus more effort on higher risk institutions and products, and the early detection of problem loan portfolios. OSFI strengthened its workforce in light of the continuing turmoil by hiring employees with current industry experience and special knowledge of credit, market and operational risks.

OSFI's total actual spending rose by 3.1% in 2006-2007, 1.4% in 2007-2008 and 5.9% in 2008-2009. During this period, OSFI also completed several major enabling technology projects in support of information management, Basel II, enhanced reporting and analytics (business intelligence), and commenced in 2006-2007 the first phase of its Pensions Processes and Systems Renewal Initiative. The first phase was largely completed during 2008-2009. The second phase of this project will begin in 2009-2010 and is expected to be completed in 2010-2011.

Voted and Statutory Items

This table summarizes Parliament's voted appropriations, or funds, to OSFI. OSFI receives an annual parliamentary appropriation pursuant to section 16 of the *OSFI Act* to support its mandate relating to the Office of the Chief Actuary.

Voted and Statutory Items (thousands)

Vote # or Statutory Item (S)	Truncated Vote or Statutory Wording	2006-2007 Actual Spending	2007-2008 Actual Spending	2008-2009 Main Estimates	2008-2009 Actual Spending
30	Operating expenditures	\$433	\$603	\$853	\$582
Total		\$433	\$603	\$853	\$582

In this fiscal year, OSFI was granted \$853 thousand (2007: \$873 thousand) in the Main Estimates. Subsequently, OSFI was granted an additional \$16 thousand related to adjustments for collective agreements, bringing the total year appropriation to \$869 thousand. This parliamentary appropriation is to defray the expenses associated with the provision of actuarial services to various public sector employee pension and insurance plans, including the Canadian Armed Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament.

The actual spending in the table above is calculated using a modified cash basis of accounting, in accordance with Treasury Board's *Guide to the Preparation of Part III of the Estimates* and the Receiver General's *Public Accounts Instruction Manual*. OSFI, however, operates on a full accrual accounting basis according to Canadian Generally Accepted Accounting Principles (GAAP) for the private sector. This difference in accounting bases gives rise to variances between OSFI's use of funds and appropriated funds. On the full accrual accounting basis, OSFI fully utilized its annual appropriations.

SECTION II: ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME

Strategic Outcome One

To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.

A properly functioning financial system, in which consumers and others (inside and outside Canada) have a high degree of confidence, makes a material contribution to Canada's economic performance. OSFI is the primary regulator and supervisor of all federally registered financial institutions, numbering about 450. The achievement of OSFI's first strategic outcome, which is shared by partners within government and the private sector, provides an essential foundation for a productive and competitive economy.

OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions and private pension plans.

Three program activities support this strategic outcome:

1. Regulation and Supervision of Federally Regulated Financial Institutions (FRFIs)
2. Regulation and Supervision of Federally Regulated Private Pension Plans
3. International Assistance

The performance indicator for Strategic Outcome 1 indicates a strong majority of CEOs (of FRFIs) believe OSFI performs well in contributing to public confidence in Canada's financial services industry. In 2008-2009, OSFI enhanced its ability to identify emerging risks; continued its participation in international discussions about key issues arising from global market turmoil, and worked with Financial Institutions Supervisory Committee (FISC) partners on similar issues in Canada; continued to prepare for the move to IFRS; made progress towards developing and agreeing on a more risk-sensitive capital framework for life insurance companies; responded to suggestions or recommendation in the Financial Sector Assessment Program (FSAP) report and the Financial Action Task Force (FATF) report; monitored Basel II systems and reviewed banks' capital adequacy assessment processes; and, continued to invest in the human resources and infrastructure needed to successfully deliver on its mandate.

1.1 Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions

This program is central to OSFI achieving its mandate. It is the largest program activity within OSFI, utilizing the bulk of its financial and human resources. Costs for this program are recovered through assessments, service charges and user fees paid by federally regulated financial institutions. Costs are also recovered via Memoranda of Understanding, as "cost-recovered services" between OSFI and some provinces for which OSFI provides supervision of their institutions on contract, and other federal government organizations, such as the Bank of Canada and the Canadian Deposit Insurance Corporation for shared information systems.

Sub-Activity	2008-2009 Financial Resources (\$ millions)			2008-2009 Human Resources (FTEs)		
	Planned Spending	Total Authorities	Actual Spending	Planned	Actual	Difference
Risk Assessment and Intervention	\$54.7	\$54.7	\$53.0	255	263	8
Rule Making	\$16.4	\$16.4	\$17.3	95	91	(4)
Approvals	\$8.5	\$8.5	\$6.8	39	40	1
Total	\$79.6	\$79.6	\$77.1	389	394	5

The related expected results, performance indicators, targets, status and summary of performance for the three interrelated activities in this program activity are identified in the summary below.

Program Activity 1.1: Regulation and Supervision of Federally Regulated Financial Institutions				
Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary
Protect depositors and policyholders while recognizing that all failures cannot be prevented.	Percentage of estimated recoveries on failed institutions ⁵ (amount recovered per dollar of claim) <i>Source: Canada Deposit Insurance Corporation, Agents, Liquidators</i>	90%	Exceeded	Total weighted average recoveries were 99% at 2008-2009 year end.
Sub-Activity 1.1.1: Risk Assessment and Intervention				
Accurate risk assessments.	Percentage of knowledgeable observers who agree that their institution's Composite Risk Rating is appropriate. <i>Source: Report on Financial Institutions Survey 2008</i>	70%	Exceeded	87% of financial institution CEOs believe that their institution's Composite Risk Rating is appropriate.
Timely and effective intervention and feedback.	Time to issue Supervisory Letter (within prescribed target days) <i>Source: Internal</i>	80% (of letters are issued within 45 days)	Mostly Met	73% of supervisory letters being issued within the 45-day standard at 2008-2009 year end.

⁵ This measure is a proxy for whether OSFI intervened early enough to prevent undue loss to depositors and/or policyholders. Estimated recovery is the amount on the dollar per claim each policyholder or depositor would receive upon the completion of the liquidation. Expectation > \$0.90.

Program Activity 1.1: Regulation and Supervision of Federally Regulated Financial Institutions				
Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary
Sub-Activity 1.1.2: Rule Making				
Regulations, guidelines and other rules that balance prudential considerations and the need for institutions to compete.	Percentage of knowledgeable observers who rate OSFI as good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between prudential considerations and the need for institutions to compete. <i>Source: Report on Financial Institutions Survey 2008</i>	50%	Exceeded	63% of financial institution CEOs rate OSFI as good or very good at developing regulations and guidance that strike an appropriate balance between prudential considerations and the need for institutions to compete.
Regulations, guidelines and other rules which are clear and scrutinized by industry.	Percentage of knowledgeable observers who rate OSFI as good or very good at developing regulations, guidelines and other rules for industry that are clear and easy to understand. <i>AND/OR</i>	75%	Mostly Met	61% of financial institution CEOs rate OSFI as good or very good at developing regulations and guidelines that are clear and easy to understand.
	Percentage of knowledgeable observers who rate OSFI as good or very good at consulting with industry on the development of regulations, guidelines and other rules. <i>Source for both: Report on Financial Institutions Survey 2008</i>	60%	Exceeded	77% of financial institution CEOs rate OSFI as good or very good at consulting with the financial services industry when developing regulations and guidelines.
Sub-Activity 1.1.3: Approvals				
Regulatory approvals result in prudentially sound decisions that are transparent.	Percentage of knowledgeable observers who understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process. <i>Source: Report on Financial Institutions Survey 2008</i>	85%	Mostly Met	82% of financial institution CEOs understand somewhat or very well the basis upon which OSFI makes decisions.
Regulatory approvals that are timely.	Percentage of completed applications for regulatory approvals that are processed within established performance standards. <i>Source: Internal</i>	90%	Exceeded	100% of approvals subject to the deeming provision were processed prior to the date on which they would have been deemed approved. All other performance standards established under the User Fee Act and the Policy on Service Standards for External Fees were met or exceeded in the year under review.

Benefits for Canadians

Our risk assessment and intervention activity helps safeguard the investments of depositors and policyholders. Throughout 2008-2009, which was marked by significant market volatility and economic pressures, OSFI enhanced its level of monitoring and scrutiny of financial institutions in order to provide more in-depth information on possible future areas of concern. This work included: comparative and cross-sector reviews concerning commercial real estate and other credit portfolios, liquidity, securitization and Basel II compliance.

Our rule-making activities contribute to the development of sound risk management practices, which is key in protecting Canadian depositors and policyholders. Due to the complex and global nature of the financial sector, rules are increasingly being developed in the international arena, where OSFI has a strong voice in rule-making bodies like the Basel Committee on Banking Supervision and the Financial Stability Board. OSFI's participation increases international confidence in Canada's financial system. OSFI provides a regulatory framework of guidance and rules that meets or exceeds international minimums for financial institutions. This includes the issuance of guidance and input into federal legislation and regulations affecting financial institutions, contributions to accounting, auditing and actuarial standards, and involvement in a number of international rule-making activities.

Our approvals activities provide FRFIs with required approvals in a timely manner, which allows them to conduct their business competitively. Canadians need to feel confident that transactions which could affect the safety and soundness of financial institutions are carefully considered by the federal regulator. During 2008-2009, we strengthened our communication internally and externally, particularly in regard to our due diligence requirements.

Performance Analysis

Risk Assessment and Intervention

- In response to the global financial crisis, over the past year OSFI has become increasingly vigilant in its oversight of rapid growth and complex products. This has included the intensified review of Canada's financial institutions' credit, capital markets, and real estate inherent risk exposures, as well as assessing the appropriateness of capital levels to operate in volatile financial markets. While certain institutions experienced losses related to credit and market risk, they successfully rebuilt their capital levels without capital injections from the Canadian government. OSFI also initiated a review, in consultation with the industry, to benchmark liquidity risk management practices. This included piloting new liquidity data and reporting requirements.
- Consistent with its early intervention mandate, OSFI proactively staged a substantial number of institutions, in accordance with its *Guide to Intervention for Federal Financial Institutions*. The stage rating determines the degree of supervisory attention institutions receive. The majority of staged institutions are in the early warning category as at March 31, 2009.
- OSFI introduced annual Risk Management sessions with various industry segments to reinforce the need for strong risk management and to share lessons learned.
- OSFI initiated a review of its risk-based supervisory framework to ensure that it continues to meet its needs.

- OSFI worked with various domestic partners in the Financial Institutions Supervisory Committee (including the Department of Finance, the Canada Deposit Insurance Corporation and the Bank of Canada) to review lessons learned, and to share information.
- OSFI continued its active participation in international fora, including the Senior Supervisors Group, the Basel Committee on Banking Supervision (BCBS), the Financial Stability Board (formerly Financial Stability Forum) and the International Association of Insurance Supervisors, to develop and implement better practices concerning liquidity management, governance and compensation.
- OSFI increased the number of supervisory staff and staff with special knowledge of credit, market and operational risks.

Rule Making

During 2008-2009, OSFI continued to promote sound risk management practices through its rule-making activities. We also continued to work with international bodies to develop international rules that may be applied to Canadian financial institutions. As part of its assessments of member countries required under Article IV of the Articles of Agreement, in March 2009 the International Monetary Fund (IMF) recognized the benefits these activities have had for Canada during the global financial market turmoil. The IMF stated that our "strong regulatory and supervisory framework" was one of the three factors responsible for the resilience of the Canadian banking system compared to its global competitors.

Through the current period of financial turmoil, Canada's federally regulated financial institutions, while negatively affected, have generally outperformed their international peers.

- During a period of rapid change and crisis in financial markets, OSFI consulted with financial institutions and moved quickly to issue advisories and to use its flexible rule-making powers to address risks and opportunities, while maintaining incentives for resilient risk and capital management.
- OSFI continued to participate in the development of sound rules at the international level and to build relationships with foreign supervisors through participation in international rule-making discussions.
- OSFI took an active role in the development of the International Financial Reporting Standards (IFRS) for financial institutions through its participation in the Basel Committee's Accounting Task Force and in the International Association of Insurance Supervisors (IAIS). OSFI's participation in the Accounting Task Force helps to ensure the Canadian perspective is considered in the development of the IFRS.
- OSFI continued to actively participate in the work of the International Association of Insurance Supervisors (IAIS). The IAIS objectives are to contribute to the improved supervision of the insurance industry for the protection of policyholders worldwide, to promote the development of well-regulated insurance markets and to contribute to global financial stability. In 2008-2009, OSFI contributed to the development of numerous IAIS guidance papers.
- OSFI continued its active membership in the Joint Forum. The Joint Forum works to achieve consistency of supervisory approaches on issues of common interest across financial sectors and national borders. OSFI participated in a number of workstreams including: the Conglomerate Principles Working Group; a stocktaking of the uses of external credit ratings by regulators in the banking, securities and insurance sectors; and a study of Off-Balance Sheet (OBS) vehicles. Additional information about these workstreams can be found in *OSFI's 2008-2009 Annual Report*.

- OSFI continued its active membership in the Basel Committee on Banking Supervision (BCBS). The BCBS provides a forum for rule making and cooperation on banking supervisory matters. During 2008-2009, the BCBS devoted efforts to assessing the causes of the crisis in financial markets in 2008 and 2009 and to executing an action plan to address lessons learned and mitigate the impact of the crisis. OSFI worked actively with other BCBS members to develop and issue new rules for sound risk management and capital regulation. Significant pronouncements from the BCBS during 2008-2009 were developed with OSFI's involvement and can be found in [*OSFI's 2008-2009 Annual Report*](#).
- During this period, OSFI held two insurance industry forums and one banking industry forum to identify and discuss challenges for Canadian financial institutions with respect to the move to IFRS.
- A conference was also held for the financial industry to discuss the impact of new anti money laundering rules on federally regulated financial institutions.

Approvals

During the past year, global financial market instability has had an impact on the OSFI approval process. OSFI enhanced the extent of regulatory due diligence applicable to certain transactions requiring approval. In addition, the overall complexity of many applications has increased and, in some cases, new regulatory or policy issues have to be addressed. OSFI spent a considerable amount of time on applications relating to corporate restructurings and reorganizations, changes of ownership, and the establishment of new federal financial institutions.

- OSFI provided continued transparency by publishing on its Web site four rulings and one advisory.
- OSFI spent considerable time dealing with technical issues related to the insuring in Canada of risks by foreign insurance companies under the "Foreign Companies" part of the *Insurance Companies Act*.
- OSFI hosted a Legislation and Approvals Seminar for industry, focused on issues related to its approvals process; feedback was very positive.

Additional information on OSFI's approvals activities in 2008-2009 can be found in [*OSFI's 2008-2009 Annual Report*](#).

Lessons Learned

Risk Assessment and Intervention

The unprecedented events in the financial markets, and the impact on financial sector supervision, have been instructive in several ways. They have confirmed the importance of contingency planning, which has allowed OSFI to adjust supervisory plans based on risk, and allocate staff as necessary to different parts of the organization. They have confirmed the importance of OSFI's strategy over the past few years of continuing to build a flexible culture, without which the adjustments would have been more difficult.

There were also important lessons learned concerning key risk management practices in the areas of liquidity management, corporate governance processes, executive compensation practices and complex financial products. Deficiencies have been identified in some institutions, as well as in OSFI's capacity to assess these critical areas. Steps are being taken in all these areas to improve practices.

Rule Making

Recent experience has provided evidence that regulators need to be flexible with respect to rules and regulation during periods of financial turmoil. While the relative success of the Canadian financial services industry was, in part, related to existing rules that limited the potential for unduly risky behaviour, OSFI also found that where appropriate, its rules could be prudently adjusted to assist financial institutions through difficult economic conditions. Given the global nature of financial services, OSFI also found that it is increasingly important to be actively involved in international rule making and regulation, as international standards are becoming more prevalent.

Approvals

The Legislative Approvals framework was subjected to an internal audit in 2007-2008. The audit report of the Regulation Sector's Approvals & Precedents Group, concluded that the approvals function is well-developed, applied in a consistent manner, and thorough in its analysis. In response to the report's recommendations, OSFI has implemented various process improvements to ensure that we continue to process applications efficiently and meet our established performance standards.

In addition, OSFI continues to enhance the transparency of the statutory approvals process and promote a better understanding of its interpretation of the federal financial institution statutes by:

- a) publishing new rulings, advisories and transaction instructions that set out interpretations of the financial institution legislation, primarily in respect of issues linked to applications for regulatory approval, and
- b) reviewing and amending transaction instructions and advisories and the incorporation guide.

1.2 Program Activity: Regulation and Supervision of Federally Regulated Private Pension Plans

This program activity incorporates risk assessment and intervention, rule-making and approvals related to federally regulated private pension plans under the *Pension Benefits Standards Act*. The costs for this program are recovered from pension plan fees based on the number of members in each federally regulated pension plan.

2008-2009 Financial Resources (\$ millions)			2008-2009 Human Resources (FTEs)		
Planned Spending	Total Authorities	Actual Spending	Planned	Actual	Difference
\$6.5	\$6.5	\$6.2	38	41	3

The related expected results, performance indicators, targets, status and summary of performance for this program activity are identified in the summary below.

Program Activity 1.2: Regulation and supervision of federally regulated private pension plans				
Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary
Protect the financial interests of federally regulated private pension plan members and beneficiaries.	Percentage of estimated recoveries on pension plans that have terminated under-funded. <i>Source: Internal Data</i>	85%	Met All	Four pension plans terminated under-funded in 2008-2009. The current estimated recovery rate for these plans is 85%.
Regulations, guidelines and other rules which are clear and balanced.	Percentage of knowledgeable observers who rate OSFI as being good or very good at developing regulations, guidelines and other rules that are clear and easy to understand. <i>AND/OR</i> Percentage of knowledgeable observers who rate OSFI as being good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between interests of plan sponsors and plan members. <i>Source for both: Pension Plans Survey 2009⁶</i>	75% 50%	Mostly Met Exceeded	60% of plan administrators rate OSFI as being good or better. 61% of plan administrators rate OSFI as good or better.

⁶ OSFI provided TNS Canadian Facts/The Antima Group, an independent research firm, with a list of administrators and professionals of the federally regulated private pension plans it regulates. The research firm invited the administrators and professionals to participate in either an online or a telephone survey - 247 pension plan administrators and 30 professionals participated resulting in a response rate of 34.7%. OSFI does not know which administrators or professionals participated. The report is available on [OSFI's Consultations and Surveys Web page](#).

Program Activity 1.2: Regulation and supervision of federally regulated private pension plans				
Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary
Regulatory approvals which are timely and transparent.	Percentage of knowledgeable observers who rate the transparency, that is, the rationale for OSFI's recommendations and decisions of the Pensions Approvals process, as good or very good. <i>Source: Pension Plans Survey 2009</i>	60%	Exceeded	61% of plan administrators rate OSFI as being good or better.
	AND/OR Percentage of completed applications for regulatory approvals that are processed within established benchmarks. <i>Source: Internal</i>	90%	Data not available as benchmarks are being established.	Not applicable

Benefits for Canadians

In this program activity, OSFI conducts risk assessments of pension plans covering employees in federally regulated areas of employment; provides timely and effective intervention and feedback; employs a balanced relevant regulatory framework; and manages a prudentially effective and responsive approvals process. Canadians need to feel confident their pension plan benefits are secure and able to fund their retirement. OSFI plays a key role in safeguarding the private pension plans that fall under federal jurisdiction. Developments affecting actuarial and accounting standards – including the increased use of market rates and prices – have implications for pensions. Innovative new investment products and strategies to optimize returns and match pension liabilities require that regulators like OSFI take into account the risk implications for pension plans.

As at March 31, 2009 OSFI supervised some 1,379 federally regulated private pension plans in Canada, which cover 612,000 active members. In the past year, OSFI worked to promote responsible pension plan governance and actuarial practices. OSFI's actions and decisions affect plan members as well as the sponsors and administrators of the plans.

Performance Analysis

Risk Assessment, Supervision and Intervention

- OSFI continued to monitor carefully the condition of private pension plans and to the extent possible, that of their sponsors, and intervened where necessary to protect promised benefits.
- OSFI worked to address potentially risky situations in a timely manner, to promote actions that mitigate risks and to intervene where appropriate, such as taking measures to enforce minimum funding requirements and ensure timely remittance of contributions.
- OSFI completed the review of its pension risk assessment framework that was begun in 2006-2007.
- OSFI reviewed its risk indicators during 2008-2009, in order to ensure their continued relevance.

- In 2008-2009, approximately 25% of the plans that submitted regulatory filings were subjected to a more detailed analysis.
- OSFI performed 11 on-site examinations during the year, and also completed one detailed desk review.
- OSFI remains committed to providing timely information to plan administrators. The turnaround time to issue the findings of on-site examinations has been significantly shortened, to an average of 23 days in 2008-2009 and as a result, the target for report issuance has been reduced to within 35 working days of the examination wrap-up meeting, an improvement from the previous target of 85 working days.

Rules and Guidance

- The newsletter PBSA Update was published twice during the fiscal year. This newsletter provides announcements and reminders on issues relevant to federally regulated private pension plans as well as descriptions of how OSFI applies selected provisions of the pension legislation and OSFI guidance.
- OSFI is also in the process of reviewing and updating previous published policy advisories and posting them to a new area of the pensions page of the OSFI Web site under Regulated Entities / Pensions Plans / Pension Policy Advisories.
- In 2008-2009, OSFI continued to promote responsible pension plan governance and actuarial practices by working closely with the Canadian Institute of Actuaries and the Canadian Association of Pension Supervisory Authorities (CAPSA). OSFI is a member of CAPSA, a forum for discussing common issues faced by federal and provincial pension plan supervisory authorities.
- OSFI worked with the Department of Finance to develop legislation and regulations for phased retirement, an initiative that was announced in the 2007 Federal Budget.
- In March 2009, OSFI published guidance regarding the smoothing of pension asset values, which was pursuant to the announcement in the Federal Budget on January 27, 2009.

Approvals

- OSFI continued to streamline processes to improve timeliness while ensuring complex transactions are carefully considered.
- OSFI pursued enhancements to its automated systems to support the pension approvals function, to be completed in early 2009-2010.
- As a result of its focused effort to reduce the backlog in requests for approvals, OSFI has cut the number of outstanding requests for approval at year end by 22 to 68.
- OSFI has published a number of new and revised instruction guides, some with standardized checklists or reports on topics such as asset transfers between defined contribution pension plans and terminations of defined contribution pension plans.
- OSFI monitored and determined the implications of court decisions affecting private pension plans.
 - In March 2009, the Supreme Court denied an application for leave to appeal the June 2008 Federal Court of Appeal ruling in the Marine Atlantic case. This confirms OSFI's positions that an actuarial surplus does not have to be distributed on the partial termination of a federally regulated pension plan and that the standard of review applicable to the Superintendent's decision is reasonableness.

Lessons Learned

The environment over the last year has confirmed OSFI's long-held view that transparency, stress testing and planning for various financial outcomes are crucial to the sound operation of a pension plan. OSFI will continue to strongly encourage plan administrators to disclose issues to plan members, to use regular scenario testing as a risk management tool and to develop possible responses that are consistent with their risk tolerance.

In the *Pension Plans Survey 2009*, some areas for improvement were identified and an action plan has been developed to address these, including in the area of regulations and guidance, and approvals. As well, respondents offered suggestions to enhance communications. OSFI will continue to issue clear instructions and guidance within its mandate to the pension industry, and will increase consultations with industry in developing its guidance and instructions.

1.3 International Assistance

This program activity incorporates activities related to providing help to other countries that are building their supervisory and regulatory capacity. This technical assistance is provided by the International Advisory Group (IAG). The costs for this program are recovered via Memoranda of Understanding between OSFI and organizations such as the Canadian International Development Agency (CIDA) and the International Monetary Fund.

2008-2009 Financial Resources (\$ millions)			2008-2009 Human Resources (FTEs)		
Planned Spending	Total Authorities	Actual Spending	Planned	Actual	Difference
\$1.9	\$1.9	\$2.2	6	8	2

The increase in 2008-2009 spending is related to incremental travel requirements as directed, and funded, by CIDA.

The related expected results, performance indicators, targets, status and summary of performance for this program activity are identified in the summary below.

Program Activity: 1.3 International Assistance				
Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary
Emerging market economies are more informed about current approaches to regulatory and supervisory systems, and deploy them to the extent possible.	Percentage of respondents that rate the assistance / presentations provided as relevant to their work. <i>Source: Survey of International Advisory Group (IAG) program participants⁷</i>	80%	Exceeded	86.8% of respondents rated the assistance / presentations as relevant to their work.
Technical assistance (e.g., workshops, advice, on-site needs assessments)	Percentage of respondents who rate OSFI trainers as competent or highly competent.	90%	Exceeded	99% of respondents rated OSFI trainers as competent or highly competent.

Benefits for Canadians

This program activity supports the government of Canada's priority for a safe and secure world through international cooperation. Canada and other G-7 governments recognize that upgrading the supervisory capacity of emerging market supervisory authorities can enhance the stability of the global financial system. Canada plays an important role in this regard, in part through OSFI's technical assistance program, which helps selected emerging market economies to improve the

⁷ Surveys are provided to workshop participants when IAG staff are the primary presenters. IAG delivered 25 such workshops in 2008-2009, with 853 participants. A total of 694 surveys were completed, for a response rate of 81.4%.

supervisory systems for their financial institutions in line with international banking and insurance supervisory standards. This assistance also benefits Canadian financial institutions, as it strengthens supervisory regimes and increases confidence in jurisdictions in which some of Canada's financial institutions operate.

Performance Analysis

Since its inception in 2001, IAG has administered and operated its technical assistance program by conducting needs assessments and providing hands-on technical advice, training, workshops and seminars, primarily to supervisors in the Caribbean, Latin America, Asia and Africa. Informal evaluations by CIDA indicate there have been significant and generally sustainable impacts on capacity building in countries where IAG has established continuing relationships.

Steps taken during the year in support of this objective include:

- During 2008-2009, IAG delivered 45 bilateral or multilateral programs, sometimes in partnership with other technical assistance providers, in 28 jurisdictions.
- IAG has agreed to a multi-year plan to develop supervisory practices with supervisory authorities in Ghana, Barbados and the Dominican Republic (Tier 1).
- IAG also continued to work closely with the supervisory authorities in Malaysia, Thailand, Nigeria, South Africa and Antigua. We are assisting these jurisdictions in enhancing their supervisory and regulatory practices for financial institutions.
- CIDA's Performance Review Policy necessitates periodic independent evaluations of its technical assistance projects. In early 2009, an independent group within OSFI⁸ surveyed 20 organizations overseas that had received assistance from IAG over the previous 12 months. The purpose of the survey was to get a sense of the relevance of the support provided by IAG; of the impact on the organization; of the ease of collaboration with IAG; and to collect any suggestions for improvement. The results of this survey (based on 60% response) were very positive and substantiate the results from the IAG program evaluations. The survey indicates that the IAG programs were relevant, there have generally been sustainable impacts on capacity building, collaboration with IAG was easy and IAG instructors were highly competent.

Steps planned for the future to improve performance include:

- Going forward, IAG will continue to focus on a limited number of priority countries (Tier 1) chosen primarily for their capacity to effect change.

Lessons Learned

- Need to balance synergies of multilateral programs and Tier 1 bi-lateral programs. Each Tier 1 agreement is expected to require 3 programs on average each year.
- Following the financial turmoil, there have been significant changes and new guidance from international organizations and governments. As a consequence, some programs need to be updated and new programs need to be developed to meet changing needs. This will be a priority during 2009-2010.

⁸ The survey was administered in confidence by OSFI's Consultations and Reporting Manager.

Strategic Outcome Two

To contribute to public confidence in Canada's public retirement income system.

This Strategic Outcome is supported by the Office of the Chief Actuary (OCA). The OCA is continuously involved in preparing various experience studies and research covering a wide range of social security, demographic and economic issues that may affect the financial status of pension or benefits plans. Some of these studies also serve to support policy makers in developing and analysing various policy options in the context of plan reforms. The information presented in these studies could benefit private sector organizations that evaluate social security or private pension plan schemes.

In 2008-2009, the OCA maintained the tradition of continual improvements to actuarial methods by applying more extensive and sophisticated stochastic analysis, as recommended by the CPP Peer Review Panel.

The external peer review panel's findings received in March 2008 reports that work on the 23rd Actuarial Report (CPP) fairly communicated the results of the work performed by the Chief Actuary and his staff. The achievement of OSFI's second strategic outcome provides an essential contribution to income security for Canadians.

2.1 Office of the Chief Actuary

2008-2009 Financial Resources (\$ millions)			2008-2009 Human Resources (FTEs)		
Planned Spending	Total Authorities	Actual Spending	Planned	Actual	Difference
\$5.7	\$5.7	\$5.3	38	37	(1)

Program Activity 2.1 is supported by three distinct Sub-Activities: Canada Pension Plan and Old Age Security, Public Pension Plans, and Canada Student Loans. The related expected results, performance indicators, targets, status and summary of performance are identified in the summary table below.

Program Activity 2.1: Office of the Chief Actuary				
Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary
Stewards of Canada's public retirement income system are provided with professional actuarial services and advice in regard to the Canada Pension Plan (CPP) ⁹ and	Adequacy of professional experience of the Chief Actuary and his staff.	Unanimous agreement	2008-2009 – N/A 2007-2008 – Met All	The external peer review panel's findings received in March 2008 reports that work on the 23 rd Actuarial Report (CPP) complies with all relevant professional standards and that the Chief
	AND/OR Compliance with	Unanimous agreement	2008-2009 – N/A 2007-2008 – Met	

⁹ The OCA is required by law to produce an actuarial report on the CPP every three years, and the CPP Peer Review is also conducted triennially. The most recent review was completed March 2008, and the next CPP actuarial report will be published in 2010, with the independent peer review scheduled for 2010-2011.

Program Activity 2.1: Office of the Chief Actuary				
Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary
federally legislated public pension and benefit plans.	Canadian and international professional standards.		All	Actuary and his staff have adequate professional experience.
Sub-Activity 2.1.1: Canada Pension Plan and Old Age Security				
High quality actuarial valuations inform CPP and OAS stakeholders and Canadians of the current and projected financial status of the CPP and OAS.	Reviews are comprehensive (methods, assumptions, analysis) AND/OR Percentage of the recommendations within the scope and influence of the OCA that are implemented before the next peer review.	Unanimous agreement 80%	2008-2009 – N/A 2007-2008 – Met All 2008-2009 – N/A 2007-2008 – Met All	The external peer review received in March 2008 found the reviews are comprehensive ³ . The OCA plans to implement 80% of the recommendations by the next independent peer review scheduled for 2010-2011.
CPP and OAS Triennial Actuarial Reports	Timeliness of tabling in Parliament of Reports on Canada Pension Plans & Old Age Security.	100% by the deadline	CPP: 2008-2009 – N/A 2007-2008 – Met All OAS: 2008-2009 – Met All 2007-2008 – N/A	The last CPP triennial review was tabled October 29, 2007 prior to the deadline of December 31, 2007. The OAS report as at 31 December 2006 was tabled in Parliament on June 17, 2008 prior to the deadline of June 30, 2008.
Sub-Activity 2.1.2: Public Pension Plans				
Accurate and high quality actuarial valuations of Public Pension and Insurance Plans provided to departments to inform design, funding and administration of plans.	Reviews are comprehensive (methods, assumptions, analysis). AND/OR Actuarial opinion is appropriate.	Unanimous agreement Unanimous agreement	2008-2009 – N/A 2007-2008 – Met All 2008-2009 – N/A 2007-2008 – Met All	The Office of the Auditor General (OAG) report received November 2007 found that the reviews are comprehensive.
Public Sector Triennial Actuarial Reports	Timeliness of tabling in Parliament of Reports on Public Pension Plans.	100% by the deadline	2008-2009 – Met All 2007-2008 – Met All	The triennial report on the Pension Plan for the Members of Parliament as at March 31, 2007 was tabled in Parliament on April 28, 2008 prior to the deadline of September 30, 2008.

Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary
Sub-Activity 2.1.3: Canada Student Loans				
Independent valuation of the Canada Student Loans Program informs the Departments of Finance and HRSDC of the future costs and provision rates of the program.	The OCA is the service provider of choice to HRSDC.	Annual renewal of the MOU with HRSDC	2008-2009 – Met All 2007-2008 – Met All	The MOU with HRSDC was renewed in 2008-09. The Bill C-10 (<i>Budget Implementation Act, 2009</i>) assented to March 12, 2009 makes the CSLP annual report statutory thus OCA becomes the mandatory service provider for actuarial valuations of the program.
Actuarial Report on the Canada Student Loans Program	Timeliness of the Report on the Canada Student Loans Program provided to HRSDC.	100% by the deadline set by HRSDC	2008-2009 – Met All 2007-2008 – Met All	The 7 th Actuarial Report on the CSLP was sent to Ministers June 18, 2008.

Benefits for Canadians

Canada has set in place a public pensions system that is expected to be sustainable and affordable well into the future in the face of changing demographic conditions. While OSFI does not supervise public pensions, the Office of the Chief Actuary (OCA) does do statutory actuarial reports on various public pension programs, to come to conclusions about sustainability under certain assumptions. In this way, the OCA provides appropriate checks and balances on the future costs of the different pension plans and social programs that fall under its responsibilities. The OCA contributes to financially sound federal government public pension and other programs through the provision of expert actuarial valuation and advice to the Government of Canada and to provincial governments that are Canada Pension Plan (CPP) stakeholders.

Performance Analysis

- In order to ensure the high quality of its triennial actuarial reports, the OCA has a multi-layered review system that includes both internal and external reviews of its reports. Since the OAS report uses the same assumptions and methodologies as the CPP report, the reviews of the CPP reports are assumed to be a statement to the quality of the OAS report as well. In the setting of assumptions and methodologies with regards to all OCA reports, Senior Actuaries regularly peer review the work performed by other actuaries.
- To further increase the transparency and independence of the peer review process, the United Kingdom Government Actuary's Department (GAD) selected an external peer review panel and released the resulting opinion of this review in April 2008. Lastly, OSFI's Audit and Consulting Services Section performs internal audits, the most recent of which took place in early 2009 with results expected in mid 2009. The OCA then takes all these reviews into consideration in the production of subsequent reports to ensure the highest quality.
- To date, no actuarial report produced by the OCA has ever been submitted late. Furthermore, the OCA takes pride in submitting reports well in advance of the required deadline. For

example, for the period of 2008-2009, three reports were submitted to the appropriate Ministers between 10 days to 6 months prior to deadline.

- Whenever a Bill that has a significant impact on the financial status of the CPP is introduced in the House of Commons, the Chief Actuary must submit an actuarial report valuing this impact on the results of the most recent triennial actuarial report. During 2008-2009, the OCA continued working with the federal, provincial, and territorial Ministers of Finance's representatives on CPP costing for the current review period. This will be beneficial for next year, as proposed changes to the CPP legislation will require an interim report.
- The 7th actuarial report on the Canada Student Loans Program (CSLP) was successfully completed and sent to both the Minister of Human Resources and Skills Development Canada (HRSDC) and the Minister of Finance in June 2008. In March 2009, new legislation was introduced in Parliament requiring that the Chief Actuary of OSFI prepare and submit a report to the Minister of HRSDC to be laid in Parliament. Consequently, the OCA became, through legislation, the service provider for the actuarial valuation of the CSLP.

Lessons Learned

Released in March 2008, the results of the external peer review not only found that most aspects of the 23rd Actuarial review of the CPP were adequate, but also listed various recommendations for improvements for the next triennial review. The recommendations covered, among others, factors such as data, methodology, communication of results, and other actuarial issues. Agreeing that implementing the majority of the recommendations would be beneficial for the next triennial reviews, the OCA developed an action plan to address 10 of the 12 recommendations by the next external peer review. Since the CPP actuarial report is central to the OCA, the additional research and innovations introduced from one report to the next often directly affect all future reports the OCA produces, thus improving the OCA's actuarial services and advice. This increases the quality of reports presented to decision-makers, Parliamentarians, and the public and helps them understand the future costs and inherent risks of the programs under the OCA's scope.

SECTION III: SUPPLEMENTARY INFORMATION

Financial Highlights

OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial institutions and private pension plans that it regulates and supervises, and through a user-pay program for selected services. OSFI also receives revenues for cost-recovered services and a parliamentary appropriation for actuarial services relating to public sector employee pension and insurance plans.

OSFI operates on a full accrual accounting basis according to Canadian Generally Accepted Accounting Principles (GAAP) for the private sector. Overall, OSFI recovered all its expenses for the fiscal year 2008-2009. The tables and charts below provide highlights from OSFI's balance sheet, statement of operations and comprehensive income, as presented in its audited financial statements. As such, there are differences between these tables and those presented in other sections of the Departmental Performance Report, which are prepared on the modified cash basis of accounting. Typically the differences result from the accounting treatment of capital expenditures and accounts receivable.

Further details on OSFI's finances are detailed in its Audited Financial Statements, which are published in the Annual Report. OSFI's annual reports can be accessed on its Web site under [About OSFI/ Reports/ Annual Reports](#).

(\$ thousands)

Condensed Balance Sheet				
At End of Year (March 31, 2009)		% Change	2009	2008
ASSETS				
Total Assets			62,296	57,017
TOTAL ASSETS		9.3%	62,296	57,017
LIABILITIES				
Total Liabilities		17.9%	34,758	29,479
EQUITY OF CANADA				
Total Equity of Canada		0.0%	27,538	27,538
TOTAL LIABILITIES AND EQUITY OF CANADA		9.3%	62,296	57,017

The change in OSFI's total assets is predominantly related to OSFI's Cash Entitlement account. Cash increased due to a current year surplus in pension plan fees, higher interim assessment billings than actual costs (which resulted in a liability as at March 31, 2009, to be credited to paying stakeholders during 2009-2010), and receipts related to a Specified Purpose Account for insurance company liquidations.

The change in OSFI's total liabilities is mainly attributed to increases in unearned revenues (base assessments and pension plan fees), and accrued salaries and benefits. The unearned revenues represent amounts collected in advance of the incurrence of costs, in accordance with billing formulae in the Assessment of Financial Institutions Regulations, 2001 and Pension Benefits Standards Regulations, 1985. The increase in accrued salaries and benefits is related to an increase in the Employee Benefit and Health Plans rate, an additional day of

unpaid salary over the year end, and an amount payable in accordance with collective agreements.

(\$ thousands)

Condensed Statement of Operations and Comprehensive Income			
At End of Year (March 31, 2009)		2009	2008
REVENUES			
Total Revenues	7.8%	93,253	86,513
EXPENSES			
Total Expenses	7.8%	93,253	86,513
NET RESULTS OF OPERATIONS AND COMPREHENSIVE INCOME	0%	0	0

OSFI matches its revenue to its operating costs. The increase of 7.8% in OSFI's expenses is largely related to the growth in full-time equivalents as explained in the "Expenditure Profile" section of this report.

Financial Statements

OSFI's Audited Financial Statements, which are published in the Annual Report can be accessed on its Web site under [About OSFI/ Reports/ Annual Reports](#).

List of Supplementary Information Tables

In keeping with TBS guidelines, the following tables are only available electronically, and can be found on the Treasury Board of Canada's Web site at:

- ☞ Table: Sources of Respendable and Non-Respendable Revenue
- ☞ Table: User Fees/External Fees
- ☞ Table: Green Procurement
- ☞ Table: Internal Audits and Evaluations

Other Items of Interest

- Link to page with ☞ [OSFI's 2008-2009 Annual Report](#)

